ANNUAL REPORT

NATIONAL BISCUIT COMPANY

for the year ended December 31, 1947

1898 NABISCO TRADE MARK 1948

CELEBRATING

50

YEARS OF FINE BAKING

NATIONAL BISCUIT COMPANY

449 West Fourteenth Street

New York, N. Y.

To the Stockholders:

The year 1947 was a significant one for our Company. Incorporated February 3, 1898, we have completed a half century of operations and are celebrating our Golden Anniversary.

During its fifty years of existence the Company has been a leader in the packaged baked goods field. Present packaging and distribution methods in the industry are largely the result of the Company's pioneering. It is generally credited with having lifted the industry out of the cracker barrel era. One of the largest processors of agricultural products in the country, it has provided employment for thousands of people, returned millions of dollars in taxes to federal, state and local governments and provided a steady return to the stockholders on their investment. We shall strive to continue to improve and expand under our American free enterprise system and, in the effort, benefit not only ourselves but the community.

In the year 1947 the volume of business reached a new high record, with more people employed, at higher wages than ever before.

The shortage of raw materials, which hampered our operations during the years immediately preceding, largely cleared up in 1947. All materials were in sufficient supply throughout the year with the exception of sugar, the use of which continued under quota until July 28, at which time restrictions were removed. It has remained in good supply since.

While in good supply, raw materials steadily advanced in price throughout the year. Despite a record crop, wheat prices reached a new high level due largely to foreign commitments. Winter

wheat plantings this year point to a substantial, though not record, crop. It is to be hoped that it materializes, for any crop failure could have serious consequences in view of the present world food situation.

Following is a report of the financial condition of the Company and subsidiaries as of December 31, 1947, a statement of earnings, and more detailed comments on its activities during the past year—its fiftieth year of operation.

EARNINGS

Earnings in 1947, before loss on disposal of fixed assets and taxes on income, were $37,974,161 compared with $28,887,601 in 1946. Such earnings show an improvement in relation to sales in 1947 as compared with the previous year, but are still below our pre-war average.

Net earnings for the year 1947 were $22,902,126, compared with $17,162,294 in 1946. After provision for dividends on the preferred stock, this is equal to $3.36 per share on the common stock. Net earnings in 1946 were $2.45 per share of common stock not including a non-recurring item of $2,492,685 arising from settlement of a processing tax claim and applying to operations prior to 1936. Including this non-recurring item, net income for 1946 was $19,654,979 or $2.85 per share of common stock.

Improved efficiency in our manufacturing and distributing operations, timely procurement of materials throughout the year in the light of subsequent market prices, and the availability of materials for the production of our higher class merchandise, affected the earnings favorably.

The purchasing power of the dollars derived from current earnings is substantially less than was that of an equivalent sum resulting from pre-war earnings. Funds provided by depreciation provisions computed on cost (which remains the traditionally accepted basis upon which to compute such depreciation provisions) are inadequate, under prevailing conditions, to finance replacements of buildings, machinery and equipment. Accordingly, it is necessary to supplement such funds by retaining additional amounts of earnings in the business. As mentioned later in this report, we have deemed it prudent

to "ear mark" $6,000,000 of the earnings for 1947 and to transfer such amount to a special reserve for plant additions.

SALES

Net sales, after deduction of trade and cash discounts, returns and allowances, were $263,893,660, compared with $220,195,488 in 1946. This represents a new high in sales in dollars, although a slight reduction in tonnage as compared with 1946. Higher dollar sales were the result of improved sales of the higher priced sweet and iced varieties made possible by the availability of sugar, and price increases in the last half of 1946.

TAXES

Federal and foreign income tax provisions in 1947 were $15,051,023. Total taxes in 1947 were $19,874,282, equivalent to $3.16 per share of common stock, or 7 cents on each dollar of sales.

Our domestic income tax returns have been audited by the Treasury Department up to and including the year 1943. It is not expected that final determination of tax liability, when years subsequent to 1943 are audited, will result in any substantial changes.

No final action has been taken by the Treasury Department upon our claim for refund of Excess Profit Taxes. As was stated in the Annual Reports for the past few years, this claim has been filed under the provisions of the Revenue Act providing for relief, where for one reason or another, the basis on which the tax is computed is improper or inequitable. It is still impossible to predict what the final determination may be.

SUBSIDIARIES

The operating subsidiaries of the Company, three in Canada and one in England, experienced no serious difficulties during the year. They accounted for 4% of the Company's net operating earnings in 1947. Price controls on our products in Canada were removed on September 15, 1947, and necessary adjustments in selling prices, consistent with prevailing costs, were made at that time. Price controls are still in effect in England and rising costs continue to narrow our margin of profit in that country.

For comparative purposes we continue to include the earnings from our English subsidiary at $4.85 to the pound sterling, but reduce them to the current rates through the Foreign Exchange Adjustment Account, so that the net

results are finally included in the Consolidated Income Statement in equivalent United States dollars. Since the Canadian dollar is now on a par with our own, no adjustments of the Canadian earnings for 1947 were necessary.

We have continued our practice of including current assets and current liabilities of foreign subsidiaries in the consolidated balance sheet at the current rate of exchange, charging any necessary adjustment against earnings. Here again, no adjustment was necessary this year for the Canadian companies because of the parity of the Canadian dollar.

Foreign investments of the Company located in Canada and England, and included in the consolidated balance sheet at the close of the year, amounted to $7,514,000. The fiscal authorities in Canada and England permit the Company to withdraw cash funds from those countries in amounts substantially equivalent to current earnings of the subsidiaries.

PURCHASE COMMITMENTS

The nature of our business is such that inventories, both of raw material and finished products, can little exceed current needs, and the Company does not enter into future commitments at any time in such amount as to affect its financial position materially.

INVENTORY RESERVE

The Raw Materials, Supplies and Finished Product Account shown in the balance sheet is higher than that shown at the close of the previous year. It is felt however that the Inventory Reserve of $5,000,000 is sufficient to cover any foreseeable eventualities with respect to inventory valuation.

RESERVE FOR PLANT ADDITIONS

As a result of our inability to make necessary replacements of buildings and equipment during the war years, we have before us an abnormal but immediate construction and modernization program. Much of this is likely to be completed and paid for in a period of greatly inflated costs. It seemed advisable to set up a reserve in the amount of $6,000,000, partly to meet this situation. This reserve appears in the balance sheet.

ADDITIONS AND CHANGES IN PLANTS AND EQUIPMENT

On May 1, 1947, our Canadian

subsidiary, Christie's Bread, Limited, purchased the plant and equipment of the Sun-Rays Bread Company at Welland, Ontario, Canada. This territory, located in the southeastern part of Ontario, had been partly served by the Bread and Soft Cake Bakery located at Toronto, but the Toronto facilities were inadequate to fully meet sales requirements, making additional facilities necessary. Furthermore, freight costs from Toronto to Welland were high, making it desirable to have a plant located closer to the sales area. The Welland plant is being modernized and it is anticipated that this work will be completed in the summer of 1948.

On May 1, 1947 Christie, Brown & Company, Ltd., Canada, sold the building occupied by its biscuit bakery on Sterling Road, Toronto. The premises were then leased back for a sufficient period to permit continued production at this plant until such time as the new bakery in Toronto is ready for occupancy.

Modernization programs have been carried forward and completed at the Charleston, South Carolina, and Burlington, Vermont, Bread Bakeries.

The new wheat storage tanks at the Toledo, Ohio, Flour Mill, increasing our capacity from 4,000,000 to 6,000,000 bushels, were completed this past summer in time to receive the wheat arriving from that harvest. This was of great advantage in the unusual conditions surrounding this commodity during the year. A further appropriation has been authorized to modernize our wheat blending and cleaning facilities at Toledo. This includes the erection of a new wheat cleaning house and new wheat storage bins to replace present steel storage tanks and wooden elevators, which are outmoded. It is expected that this project will be completed by June, 1949.

Progress is being made on the construction of the new bakeries at Houston, Texas, and Toronto, Canada, and it is expected they will be in operation early in 1949. The site has been purchased for the new bakery at Portland, Oregon, and construction should commence within the next few months.

Construction has progressed and delivery of material has been expedited to the end that the new pretzel bakery in our New York plant, the new soft

cake bakery at East Liberty and the Triscuit unit for Niagara Falls will all be in operation before the close of 1948.

The addition to the Erie Avenue Shredded Wheat plant at Niagara Falls, New York, has been delayed due to experimentation with a new type oven. As soon as a definite determination is made of the type of oven most desirable, the project will be carried forward.

Land has been selected for new Bread Bakeries at Elmira, New York, and Plattsburgh, New York. Construction will probably start early in 1948 and the bakeries should be ready for use early in 1949.

The New York Research Laboratory, referred to in last year's Annual Report, is close to completion and we hope to see it staffed and in operation by the end of March, 1948.

During the year 1947 we expended $7,100,000 on new buildings, equipment and motor vehicles. This is considerably less than we had planned, but progress has been slow due to current difficulties surrounding construction of plants and delivery of equipment. There have been no alterations in our plans for plant rehabilitation and we hope to progress more rapidly in the year 1948.

PENSION PLAN

During the year 1947 pensions paid to retired employees amounted to $664,148. At the close of the year there were 1,107 persons receiving pensions.

RESEARCH

The early completion of the new research laboratory in New York has been commented on in the foregoing paragraphs.

We feel that the most significant developments during the year have been in the field of mechanical improvements, particularly in the handling of raw materials. Requisitions have been approved for the installation of equipment for the bulk handling of shortening at all major bakeries. Briefly this contemplates the receipt of shortening at the bakery in tank cars rather than in drums. The shortening is then piped to the place of use, eliminating manual handling both in the unloading process and in the bakery.

Progress is being made in a study to determine the feasibility of handling

flour and sugar by application of the same principles. If this materializes it will call for the installation of pneumatic equipment at both flour mills and bakeries. The materials will be shipped in tank cars, unloaded and distributed automatically throughout the bakery.

We are experimenting with automatic batching and mixing, which techniques have been successfully employed in other industries. Perfection of the processes would greatly improve the efficiency of these operations and eliminate variations which now sometimes occur as between one bake and another. In other words, it would produce a greater uniformity of product.

We do not suggest that the foregoing ideas are necessarily new. They are merely new in their application to our particular business. Neither are we predicting that the experiments will all succeed. We merely cite them as interesting examples of the type of work we are doing and hope to do in the future along lines of mechanical research.

ORGANIZATION CHANGES

On December 22, 1947 George A. Mitchell was elected Vice President and Controller. Mr. Mitchell had been Controller of the Company since December 1, 1939.

We feel that in the years just ahead competition for the consumer's dollar will be keen. There have been marked changes in methods of retail food distribution. There is a trend toward larger stores and super markets with self-service. More and more the fate of the producer lies in the hands of the consumer. All of this calls for change in merchandising methods. We have augmented our Sales Department by the addition of a Marketing Division, appropriately staffed, which will materially assist the line organization in coping with the merchandising problems of the future.

We have increased our number of divisional sales managers from four to six and our district sales managers from twenty-one to twenty-eight. This will produce two principal benefits. It will enable these supervisory people to devote more time to the problems of their particular territories and it will increase the number of avenues for the training and promotion of the younger personnel.

EMPLOYEES

The morale of our employees is good and efficiency is improving. We are pleased to report that we have had no labor disturbances during the year.

The Company has 29,000 employees of whom 8,419 have been with the Company for more than ten years.

In our report last year we mentioned the establishment of a Personnel Relations Department. Organization of this department has been completed, it is functioning well and achieving the purposes for which it was created.

Of special note in the work of this department during the year was the launching of a Suggestion System. This is a means whereby the employees are encouraged to make suggestions for the good of the Company. The suggestions are evaluated by a special committee and cash awards paid the suggesters for those suggestions adopted. Suggestions may have to do with any Company function, although most of them are along the line of improved manufacturing procedure. The idea is an old one but new in our Company. We believe it to be of inestimable value in increasing the interest of the employee in his job and in the Company. During the year 7,955 suggestions were received from employees, of which 555 were adopted and awards totaling $11,858 were paid to the successful suggesters.

THE FUTURE

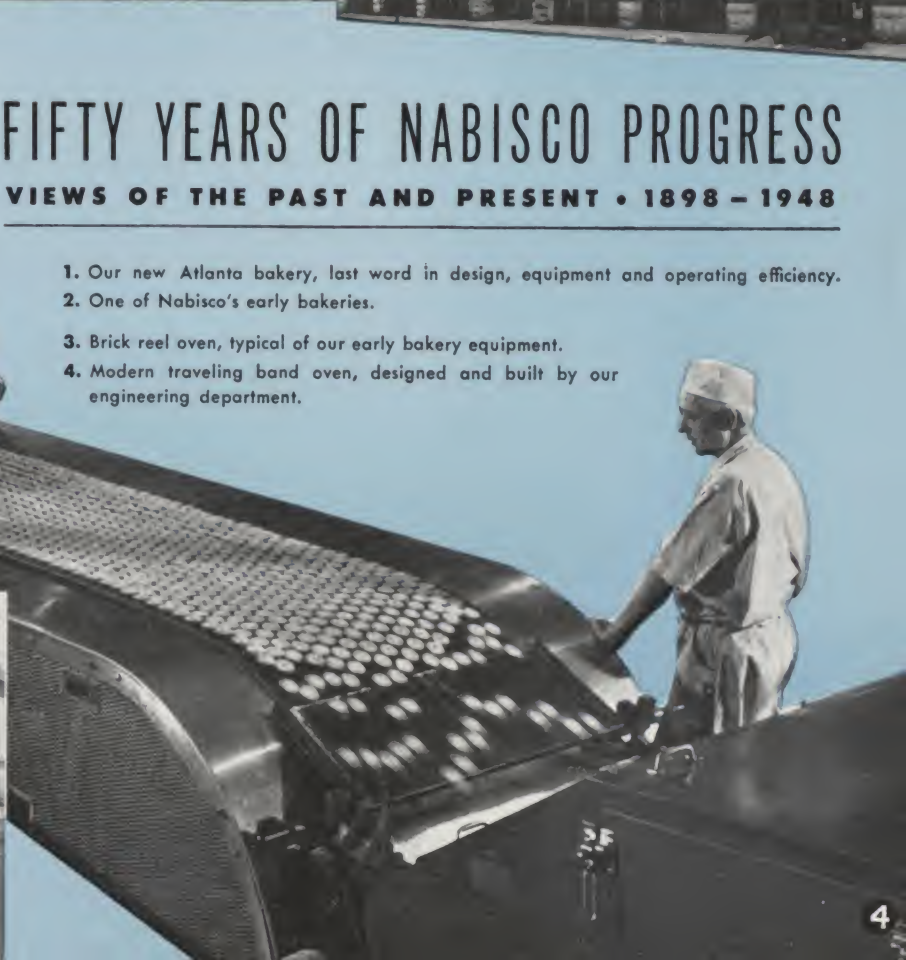
Demand for our products, dependent as it is on the level of expendable National income, should continue at a high level. The major problem in the immediate future is the trend toward higher commodity prices, which is influenced greatly by world conditions. We believe that any dislocation brought about by rising commodity prices will be temporary, and we hope that favorable world-wide crops in 1948 may have a tendency to stabilize such prices at a reasonable level.

George H. Coppers,
President.

FIFTY YEARS OF NABISCO PROGRESS

VIEWS OF THE PAST AND PRESENT • 1898 – 1948

1. Our new Atlanta bakery, last word in design, equipment and operating efficiency.
2. One of Nabisco's early bakeries.
3. Brick reel oven, typical of our early bakery equipment.
4. Modern traveling band oven, designed and built by our engineering department.



FIFTY YEARS OF NABISCO PROGRESS

1898
1948

1. Modern Nabisco sales branch with its fleet of up-to-the-minute trucks.
2. Sales branch back in the days of the horse and wagon.
3. Old hand-operated cracker cutting machine.
4. New automatic cutting machine cuts dough prior to baking.
5. Earlier model enrobing machine.
6. Efficient new "enrober," shown applying chocolate coating.

1

2

3

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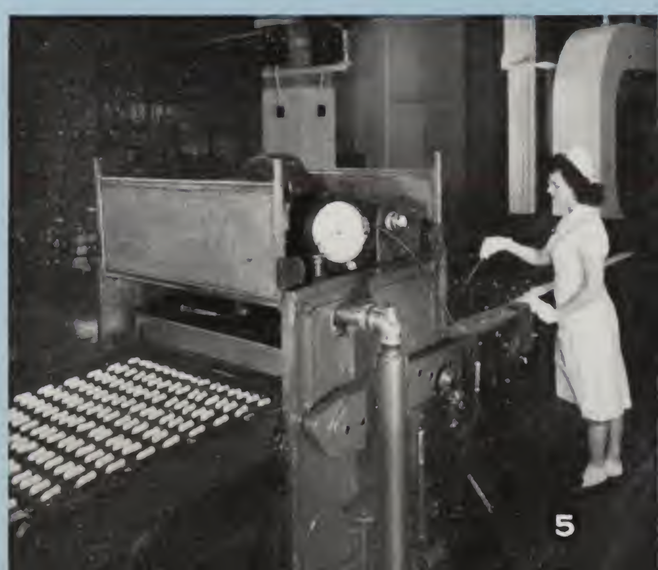

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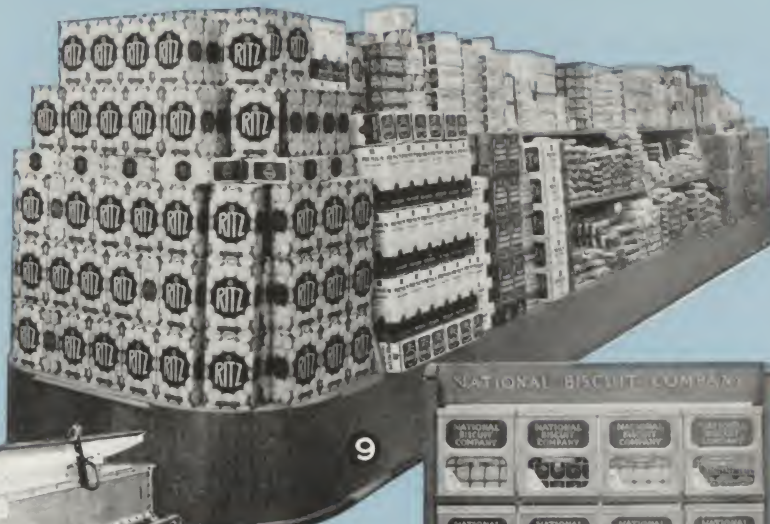
7. Newly developed continuous beater speeds preparation of marshmallow.

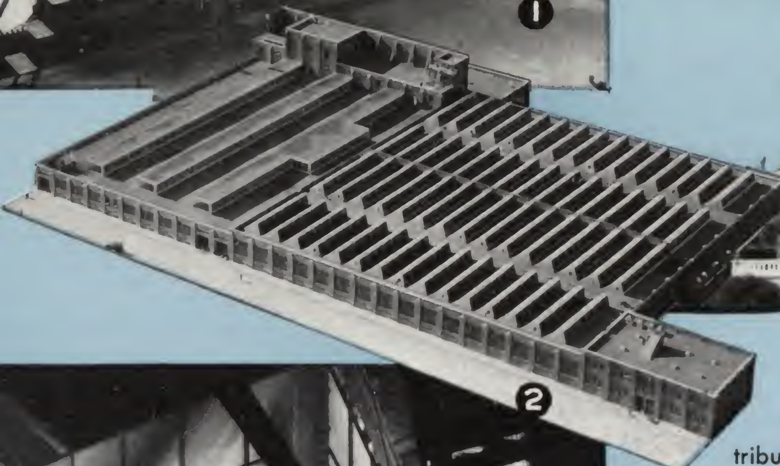
8. Outmoded marshmallow beater.

9. This smart cracker display is a fine example of modern merchandising.

10. Old time cracker display rack.

11. The old cracker barrel replaced by modern packaging, pioneered by Nabisco.





Special production facilities, all developed during the growth of the Company, have contributed greatly to the ever-increasing efficiency and uniformity of our operations.

1 & 2. Interior and exterior views of our Beacon, N. Y. modern printing plant, where Nabisco prints its wrappers, cartons and seals.

3. Nabisco grinds its flour at three modern mills. This one is at Toledo.

4 & 5. Interior and exterior views of our plant at Marseilles, Ill., where Nabisco boxboard and cartons are made.

6. Immaculate Nabisco test kitchens where outstanding recipes and service suggestions are developed for home-makers.

SUMMARY OF OPERATIONS

YEAR 1947

	Amount
We received as income from sale of our products	$263,893,660
We expended for:	
Raw materials, supplies and services bought from others	$139,256,348
Employees' services (wages, pensions, social security taxes, etc.)	79,596,299
Direct taxes, except social security taxes	18,126,564
Estimated wear and tear on plant and equipment	3,808,414
Loss on sale of assets not needed to produce income	21,012
Officers' salaries for management of the business	509,900
Leaving profits, representing the cost of using the tools of production (plant and equipment), which were:	
Distributed as dividends to the stockholders	$14,315,211
Retained in the business for expansion and modernization	8,259,912

	Per Dollar of Income
Raw materials, supplies and services bought from others	52.8¢
Employees' services (wages, pensions, social security taxes, etc.)	30.2
Direct taxes, except social security taxes	6.9
Estimated wear and tear on plant and equipment	1.4
Loss on sale of assets not needed to produce income	—
Officers' salaries for management of the business	0.2
Distributed as dividends to the stockholders	5.4
Retained in the business for expansion and modernization	3.1

* * * * * * * *

National Biscuit Company also received $327,003 for activities not related to the manufacture or sale of its products.

ASSETS

	December 31, 1947	December 31, 1946
Cash	$11,736,844.66	$12,784,688.74
U. S. Bonds (Quoted Market 12-31-47 $34,071,684.07)	34,073,000.00	28,973,000.00
Other Bonds (Quoted Market 12-31-47 $1,080,874.39) Note: $691,500.00 Principal Amount U. S. and Other Bonds deposited for special reasons	1,074,437.52	1,269,562.53
Accounts Receivable	6,829,634.77	6,711,610.87
Raw Materials, Supplies and Finished Product (At Cost or Market, whichever is lower)	43,082,429.52	34,549,277.22
Total Current Assets	96,796,346.47	84,288,139.36
Notes and Mortgages Receivable	191,995.86	140,180.33
Post-War Refund of Excess Profits Taxes (Canada)	397,341.41	397,341.41
Plants, Real Estate, Machinery and Equipment (At Cost, Less Allowances for Depreciation of $46,844,264.47 at December 31, 1947)	54,938,085.30	52,246,331.42
Prepaid Expenses and Deferred Charges	1,989,356.06	1,553,429.86
Total	$154,313,125.10	$138,625,422.38

NOTE: The so-called "portal to portal" pay suits referred to in the last annual report are still pending. Since then the Portal-to-Portal Act of 1947 has been passed. Under its provisions we hope to have these suits dismissed.

BALANCE SHEET

LIABILITIES

	December 31, 1947	December 31, 1946
Accounts Payable (Purchase Invoices, Pay Rolls and other Accruals not due for payment)	$6,842,446.04	$6,291,853.57
Common Dividends, Payable January 15, 1948	5,031,558.40	1,886,834.40
Reserve for Federal and Foreign Taxes on Income	16,925,787.47	13,521,264.91
Total Current Liabilities	28,799,791.91	21,699,952.88
Insurance and Contingent Reserve	3,663,254.78	3,662,306.19
Inventory Reserve	5,000,000.00	5,000,000.00
Reserve for High Cost Plant Additions	6,000,000.00	
Capital Stock, Preferred (Par Value $100.00—7% Cumulative) Shares authorized 250,000, issued 248,045	24,804,500.00	24,804,500.00
Capital Stock, Common (Par Value $10.00) Shares authorized 12,000,000, issued 6,289,448	62,894,480.00	62,894,480.00
Earned Surplus	23,151,098.41	20,564,183.31
Total	$154,313,125.10	$138,625,422.38

CONSOLIDATED INCOME AND EARNED SURPLUS
YEAR—1947

Net Sales		$263,893,659.69
Cost of Sales	$172,010,550.09	
Selling, General and Administrative Expenses	45,524,122.92	
Depreciation	3,808,413.89	
Foreign Exchange Adjustments	80,156.05	
Taxes (other than Federal and Foreign Taxes on Income)	4,823,258.91	226,246,501.86
Income from Operations		37,647,157.83
Interest, Rents and Miscellaneous Income		327,003.32
Total		37,974,161.15
Loss on disposal of Fixed Assets	21,012.24	
Provision for Federal and Foreign Taxes on Income	15,051,022.81	15,072,035.05
Net Earnings for the year		22,902,126.10
Transferred to Reserve for High Cost Plant Additions		6,000,000.00
Balance of Net Earnings transferred to Surplus		16,902,126.10
Earned Surplus December 31, 1946		20,564,183.31
		37,466,309.41
Preferred Dividends Paid	1,736,315.00	
Common Dividends Paid	7,547,337.60	
Common Dividends, Payable January 15, 1948	5,031,558.40	14,315,211.00
Earned Surplus December 31, 1947		$23,151,098.41

REPORT OF AUDITORS

To the Stockholders of

National Biscuit Company,

New York, N. Y.

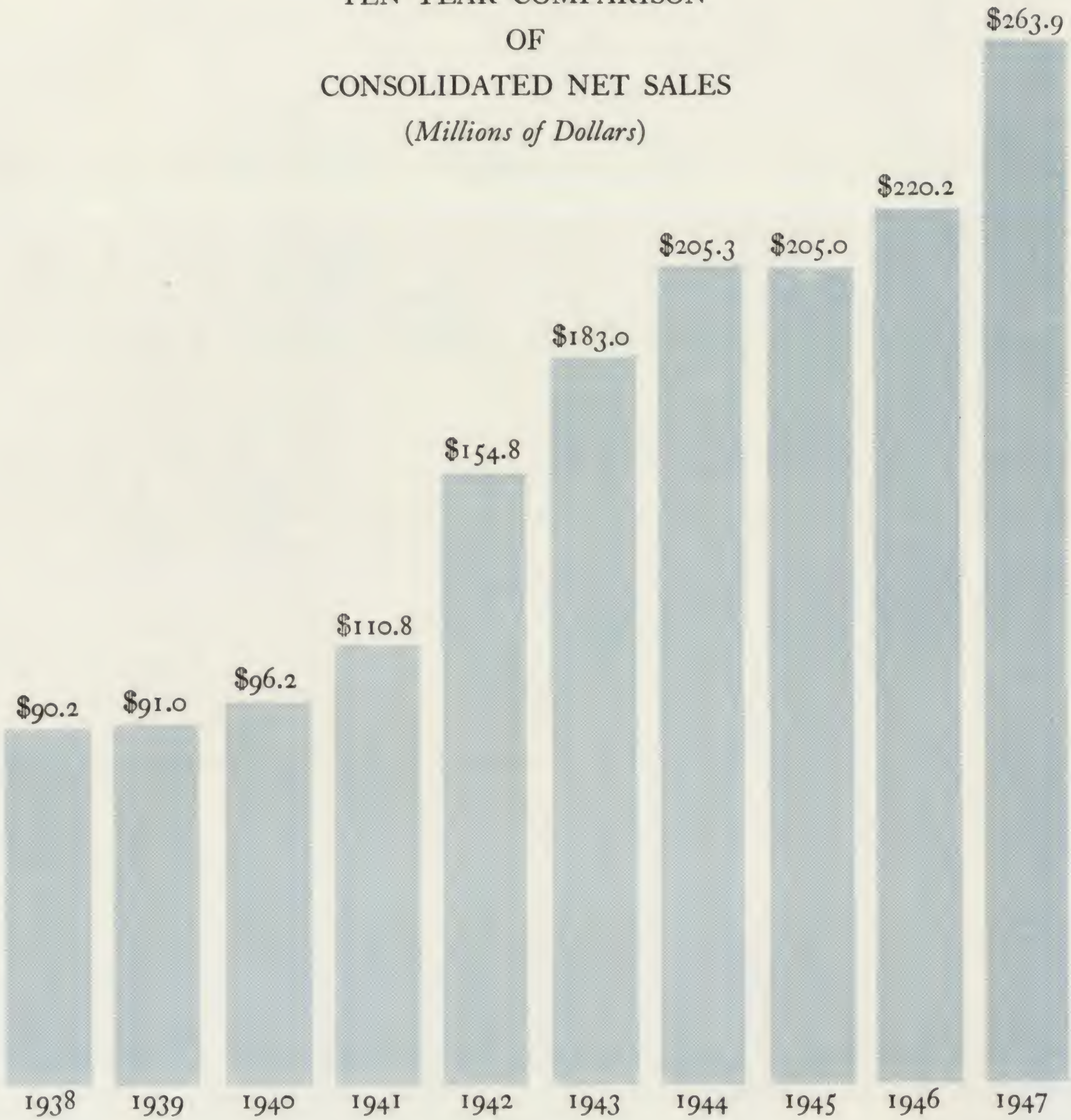
We have examined the consolidated balance sheet of National Biscuit Company and its subsidiary companies as of December 31, 1947, and the consolidated statement of income and earned surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statement of income and earned surplus present fairly the consolidated position of National Biscuit Company and its subsidiary companies at December 31, 1947, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros & Montgomery

New York, N. Y.
February 5, 1948.

TEN YEAR COMPARISON
OF
CONSOLIDATED NET SALES
(Millions of Dollars)



BOARD OF DIRECTORS

Roy E. Tomlinson—*Chairman*

Charles C. Auchincloss
Henry J. Cochran
George H. Coppers
Franklin D'Olier
Robert A. Fairbairn
Dudley W. Figgis
Roy C. Gasser
Edward F. Low
Frank K. Montgomery
Edward S. Moore
Paul Moore
Alexander C. Nagle
Livingston Platt
William White

OFFICERS

President

George H. Coppers

Vice Presidents

Thomas F. Burke, *Bread*
Howard B. Cunningham, *Purchasing*
Harry T. Eggert, *Personnel Relations*
Alfred W. Kasten, *Asst. to President*
George A. Mitchell, *Controller*
Russell M. Shultz, *Operations*
Warren S. Warner, *Sales*

Charles S. Webster — *Asst. Controller*
Albert T. Bullock — *Secretary*
Henry C. Taylor — *Treasurer*
Frederick F. Brodesser — *Asst. Secretary and Asst. Treasurer*

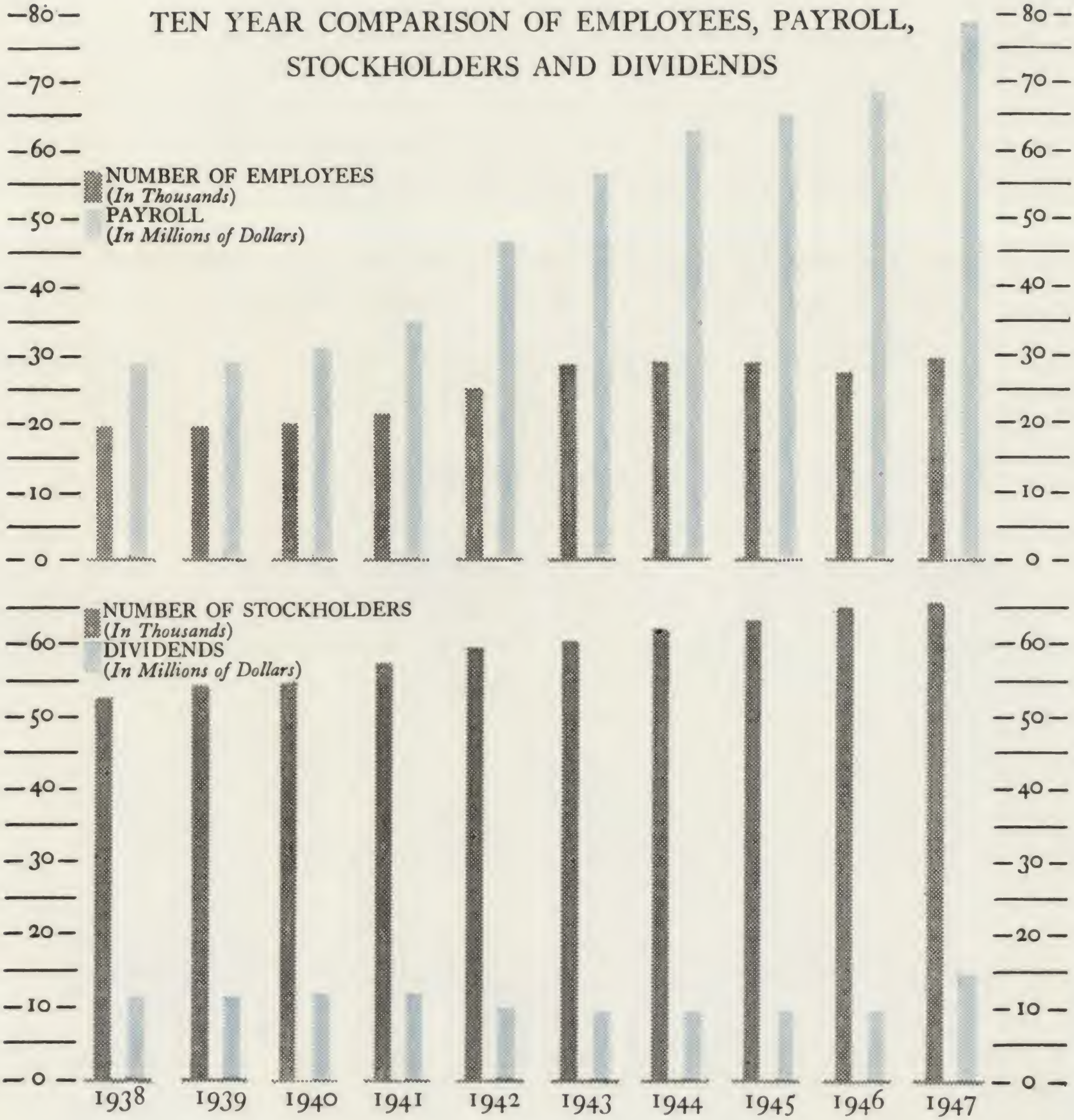
COUNSEL

Everett W. Barto, *General Counsel*
William E. MacKay, *Asst. General Counsel*

TRANSFER AGENT
Guaranty Trust Company
NEW YORK

REGISTRAR
First National Bank
NEW YORK

TEN YEAR COMPARISON OF EMPLOYEES, PAYROLL, STOCKHOLDERS AND DIVIDENDS



NABISCO

TRADE MARK